BUDGET PROCESS AND RELATED ISSUES

The President's budget includes a number of budget process changes: most notably an increase and extension of the discretionary spending limits through 2010 and the extension of the pay-as-you go discipline through 2010.

The budget also calls for a "new framework" as the basis for the 2001 and all future budgets. Such a framework includes a so-called "lockbox" for Social Security/debt reduction and a new budget category for "Medicare Solvency debt reduction reserve". As was the case last year, the President seems to premise much of the additional new mandatory spending and tax cuts called for in his budget on the enactment of his Social Security and Medicare proposals.

Discretionary Spending.

With respect to 2001, the President's budget proposes *increasing* the discretionary spending limits (relative to the current limits) by $73 billion in BA and $47.8 billion in outlays. For 2002, the limits would be increased by $75.1 billion in BA and $79.6 billion in outlays. These increases would be taken from projected on-budget surpluses.

In extending the caps through 2010, the budget provides for a new category of spending for "Lands Legacy" ($1.4 billion in BA in 2001). All existing categories (highways and mass transit) are permitted to expire after 2003 pursuant to current law. The proposed caps (through 2005) are:

PROPOSED DISCRETIONARY SPENDING LIMITS
($ Billions)

	2000	2001	2002	2003	2004	2005
Other Discretionary						
Budget authority	584.8	612.9	624.1	634.1	648.6	663.9
Outlays	573.1	593.9	614.2	628.1	677.3	697.7
Lands Legacy*:						
Budget authority	(0.7)	1.4	1.4	1.4	1.5	1.5
Outlays	(0.6)	1.0	1.2	1.4	1.4	1.5
Violent Crime Reduction:						
Budget authority	4.5	–	–	–	–	--
Outlays	6.3	–	–	–	–	--
Highway Category:						
Budget authority	–	–	–	–	–	--
Outlays	24.6	27.0	28.0	27.8	–	--
Mass Transit Category:						
Budget authority	–	–	–	–	–	--
Outlays	4.1	4.6	5.4	5.9	–	--
Total Discretionary:						
Budget authority	589.3	614.3	625.5	635.5	650.1	665.4
Outlays	608.1	626.4	648.9	663.3	678.7	699.2

* This category is proposed for 2001. Amounts shown in 2000 are for comparability purposes only.

In addition to increasing and extending the discretionary spending limits, the President also proposes to reinstate the *"inflation adjustment"* to the spending limits. This adjustment was repealed in the Balanced Budget Act of 1997 in light of the extension of the limits through 2002. The President also proposes a new "technical" *cap adjustment for section 8 housing* contract renewals. At present, the cost attributed to the fluctuating nature of section 8 renewals is addressed in a special baseline rule. This adjustment is discussed in detail in Function 600 Income Assistance.

The President also calls for the extension of current cap adjustments through 2010 for: (1) the Earned Income Tax Credit *(EITC)* compliance initiative; (2) Continuing Disability Reviews (*CDR's*) within the Social Security Administration; (3) *Adoption Incentive Payments*; and (4) *Contingent*

Emergency Appropriations. The funding for these 4 proposals is included within the spending limits shown in the table above. Nonetheless such amounts would not be included in the actual enacted spending limits but would result in adjustments to the limits when the spending was actually provided in an appropriations act.

In addition to these "adjustments", the President's budget includes two "scorekeeping" changes (and resulting adjustments to the spending limits) which were agreed to by OMB, CBO and the Congressional budget committees. The first one involves *receipts from purchase power and wheeling activities* of the Department of Energy's Power Market Administrations. Such receipts will be reclassified as discretionary spending. As a result the BA and outlay caps will be reduced by approximately $60 million in 2001 and 2002. The second change involves the scoring of *BA for contingent emergency appropriations*. Beginning in 2000, OMB will score the BA in its 7-day cost estimate of the bill, rather than waiting until the President actually designates the spending as an "emergency requirement". This scoring change brings OMB closer to compliance with current congressional practices.

Pay-as-you-go.

At the same time that the President's budget proposes to spend $ ____ billion of the projected on-budget surplus, he calls for the extension of the current pay-as-you-go enforcement mechanism found in section 252 of the Balanced Budget and Emergency Deficit Control Act through 2010. Current law (which expires in 2002) requires that any increases in mandatory spending or revenues be "off-set" by either reductions in mandatory spending or increases in revenues or a combination of the two.

The "new framework".

As a precondition for much of the new mandatory spending and tax cuts, the President's budget calls for the adoption of a new budgetary framework. This would include a "lockbox" to ensure that off-budget/Social Security surpluses will be reserved for Social Security and/or dedicated to debt reduction. In addition, the solvency of the Social Security trust funds would be extended by, for the first time ever, dedicating trillions of dollars of general tax revenues to the program. This so-called lockbox is discussed in detail within Function 650 Social Security.

The framework also includes a similar proposal for Medicare. Nearly $300 billion of the on-budget surplus would be dedicated to debt reduction. An additional $35 billion of the on-budget surplus and is added to Medicare for a catastrophic prescription drug proposal in a way that prevents it from being used for any other purpose. In addition, the President calls fro transferring $2.1 trillion in IOU's to Medicare in order to keep the HI trust fund solvent. See Function 570 Medicare for a further discussion.

Additional Budget Process Proposals.

The President's budget again includes proposals for biennial budgeting and appropriating and for expedited rescission. In calling for biennial budgeting, the President endorses the idea of both two-year budgeting and appropriations. The President's support for expedited rescission authority emerges from the ruling of the Supreme Court holding the Line Item Veto Act to be unconstitutional as a violation of the separation of powers doctrine. Such a proposal would be in addition to existing rescission authority contained in title X of the Congressional Budget Act and would require Congress to have an up or down vote on all rescissions proposed by the President. Title X currently provides expedited legislative procedures for the consideration of such legislation - it does not require that these procedures be invoked.

In addition, the President's budget supports the concept of a congressional proposal to budget for *federal insurance programs on an accrual basis*. Due to the complex nature of this proposal, the President calls for further study of this issue rather than enactment of new legislation in the coming year.